

2003R00993

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

UNITED STATES OF AMERICA	:	CRIM. NO.
	:	
	:	HON.
	:	
	:	VIOLATIONS:
v.	:	
	:	Title 18, United States Code,
	:	Sections 371, 1001 and 2.
	:	
	:	
JOSEPH A. SANPIETRO	:	

INFORMATION

The defendant having waived in open court prosecution by Indictment, and defendant having waived any claim that venue for the offense charged in Count Two does not properly lie in the District of New Jersey, the United States Attorney for the District of New Jersey charges:

COUNT ONE

(Conspiracy to Commit Securities Fraud,
Wire Fraud and to Make False Certifications
in Reports Required to Be Filed with the SEC)

Medi-Hut and Related Entities

1. At all times relevant to this Information, Medi-Hut Co., Inc. ["Medi-Hut" or the "Company"] was a corporation with its principal place of business in New Jersey which was primarily engaged in selling wholesale medical products, wholesale brand name and generic prescription drug products, and wholesale over-the-counter drug products. From in or around November 2002,

Medi-Hut's home office was located in Wall Township, New Jersey.

2. In or around 1998, Medi-Hut conducted an initial public offering of its stock, which was then traded on the over-the-counter market. In or around July 2001, Medi-Hut stock was listed for trading on the Nasdaq SmallCap Market.

3. In or around 1992, L.M. founded Vallar Consulting Corporation ["Vallar"] as a New York corporation, and subsequently served as its President and sole shareholder. Up until on or about April 4, 2000, when it was purchased by Medi-Hut, Vallar was primarily engaged in the business of selling name-brand and over-the-counter pharmaceutical drugs to distributors and wholesalers nationwide.

4. On or about March 9, 2000, L.M. founded Larval Corporation ["Larval"] as a New York corporation, and subsequently served as its President and sole shareholder. At all times relevant to this Information, Larval was primarily engaged in the business of selling name brand and over-the-counter pharmaceutical drugs to distributors and wholesalers nationwide.

Defendant and His Co-Conspirators

5. Joseph A. Sanpietro ["defendant **SANPIETRO**"] was a resident of Freehold, New Jersey. Defendant **SANPIETRO**, along with his brother V.S., founded Medi-Hut in or around 1982. Until on or about March 5, 2003, defendant **SANPIETRO** served as Medi-

Hut's President, Chief Executive Officer ["CEO"], and as a Director of Medi-Hut. Defendant **SANPIETRO** owned approximately 3.3 million shares of Medi-Hut, or approximately 22% of its outstanding shares.

6. L.S., a co-conspirator not named as defendant herein, was a resident of Englishtown, New Jersey. From on or about June 4, 2001 until on or about March 5, 2003, L.S., a certified public accountant, served as Medi-Hut's Chief Financial Officer ["CFO"]. Prior to his employment at Medi-Hut, L.S. worked for the independent accounting firm retained to audit Medi-Hut. During his tenure at Medi-Hut, from on or about October 25, 2001 through on or about October 3, 2002, on various dates, L.S. purchased approximately 30,000 shares of Medi-Hut, at prices ranging from \$2.56 to \$5.75 per share.

7. L.M., a co-conspirator not named as defendant herein, was a resident of Seaford, New York. As stated, L.M. wholly owned and controlled Vallar from in or around 1992 until in or around April 2000, when he sold the company to Medi-Hut. In or around April 2000, L.M. was appointed Vice-President of Sales and Marketing at Medi-Hut. In this capacity, L.M. was primarily responsible for selling pharmaceutical products on behalf of Medi-Hut. At all times relevant to this Information, L.M. owned approximately 350,000 shares of Medi-Hut, or approximately 2.4% of its outstanding shares. At or about the

same time, he founded Larval, which he wholly owned and controlled.

The Securities and Exchange Commission and
Required Disclosure of Financial Information

8. The Securities and Exchange Commission ["SEC"] was an independent agency of the United States government which was charged by law with preserving honest and efficient markets in securities.

9. In order to sell securities to members of the public and maintain public trading of its securities in the United States, Medi-Hut was required to comply with provisions of the federal securities laws, including the Securities Exchange Act of 1934 ("the Act"), and rules and regulations promulgated thereunder, which were designed to ensure that the Company's financial information was accurately recorded and disclosed to the public.

10. Under these regulations, Medi-Hut was required to, among other things, (a) file with the SEC annual financial statements audited by an independent accountant on Form 10-K; (b) file with the SEC quarterly updates on Form 10-Q that disclosed its financial condition and the results of its business operations; (c) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the Company's transactions were recorded as necessary to permit preparation of financial statements in conformity with

Generally Accepted Accounting Principles ["GAAP"] and other applicable criteria; and (d) make and keep books, records, and accounts that accurately and fairly reflected the Company's business transactions. In addition, as of July 30, 2002, federal securities laws and regulations required Medi-Hut's principal executive officer, defendant **SANPIETRO**, and its principal financial officer, L.S., to certify the truthfulness and accuracy of each annual and quarterly report filed by Medi-Hut with the SEC.

11. At all times relevant to this Information, Regulation S-X (17 C.F.R. Part 210) required that all financial statements filed with the SEC be prepared in conformity with GAAP and provided that any statement that fails to comport with GAAP is presumptively misleading.

12. Statement of Financial Accounting Standards ["SFAS"] No. 57, which applies to both quarterly SEC Form 10-Q and annual SEC Form 10-K, required Medi-Hut to disclose material related-party transactions, including the nature of the relationship involved, a description of the transaction, the dollar amount of the transaction and amounts due from or to the related party. Item 404 of Regulation S-K (17 C.F.R. § 229.404) required disclosure of related-party transactions in excess of \$60,000 in the SEC Form 10-K.

13. From in or around November 2001 through in or

around March 2003, L.S. prepared financial statements of Medi-Hut that purported to conform with applicable regulatory requirements, with the assistance and input of defendant **SANPIETRO**. Those financial statements were signed by defendant **SANPIETRO**, L.S., and others, filed with the SEC in Washington, D.C., and directly disseminated to the public, through press releases (each which was reviewed and approved by defendant **SANPIETRO**), quarterly reports on SEC Form 10-Q and annual reports on SEC Form 10-K, and other communications with investors, credit rating agencies, bank lenders and securities analysts.

14. The financial statements filed with Medi-Hut's Forms 10-Q and Forms 10-K purported to disclose, among other things, Medi-Hut's financial results, including net revenue, pre-tax earnings, and earnings-per-share.

THE CONSPIRACY

15. From in or around June 2001 through in or around March 2003 in the District of New Jersey, and elsewhere, defendant

JOSEPH A. SANPIETRO

did knowingly and willfully conspire and agree with L.S., L.M. and others to commit offenses against the United States, that is:

a. by the use of means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, directly and indirectly, knowingly and

willfully to use and employ manipulative and deceptive devices and contrivances in contravention of Title 17, Code of Federal Regulations, Section 240.10b-5 ("Rule 10b-5") in connection with the purchase and sale of Medi-Hut securities, by, (i) employing devices, schemes, and artifices to defraud holders of Medi-Hut securities and other members of the investing public; (ii) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they which they were made, not misleading; and (iii) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit on holders of Medi-Hut securities and other members of the investing public, contrary to Title 15, United States Code, Sections 78j(b) and 78ff(a) and Rule 10b-5;

b. to devise a scheme and artifice to defraud holders of Medi-Hut securities and other members of the investing public and to obtain money from those securities holders and members of the investing public by means of materially false pretenses, representations, and promises, and to utilize interstate wire communications for the purpose of executing that scheme and artifice, contrary to Title 18, United States Code, Section 1343; and

c. to falsely certify Form 10-Q quarterly reports and Form 10-K annual reports filed by Medi-Hut with the SEC,

knowing that these periodic reports did not fairly present, in all material aspects, the financial condition and results of operations of Medi-Hut, contrary to Title 18, United States Code, Section 1350.

Means and Methods of the Conspiracy

16. Among the means and methods employed by defendant **SANPIETRO** and his co-conspirators to carry out the conspiracy and effect the unlawful objects set forth above were those set forth in Paragraphs 17 through 51 below.

I. Improper Undisclosed Related-Party Transactions

17. From at least in or around June 2001 through in or around March 2003, defendant **SANPIETRO**, L.S. and L.M. concealed and sought to conceal related-party transactions between Medi-Hut, Larval and L.M. from the SEC and the investing public.

18. On or about April 4, 2000, Medi-Hut purchased Vallar from L.M. in exchange for 350,000 common shares of Medi-Hut stock, which were then valued at \$1,340,500. At or about the same time, L.M. was appointed as Medi-Hut's Vice-President of Sales and Marketing. Upon L.M.'s employment at Medi-Hut, Larval, another company wholly owned and controlled by L.M., immediately became a major Medi-Hut customer.

19. On or about January 17, 2001, defendant **SANPIETRO** and others caused Medi-Hut to file with the SEC its Form 10-K for the fiscal year ending October 31, 2000 [the "FY 2000 Form 10-

K"]. The FY 2000 Form 10-K disclosed that Medi-Hut had purchased Vallar from L.M., and also acknowledged that Larval was a major customer, accounting for approximately 13%, or \$1 million, of Medi-Hut's total revenues of \$8.1 million. However, Medi-Hut's FY 2000 Form 10-K failed to disclose that L.M. had been appointed as a Medi-Hut Vice-President, or that L.M. was also the owner and President of Larval, a major customer of Medi-Hut.

20. Thereafter, Larval became Medi-Hut's largest customer. For fiscal year 2001, which ended on October 31, 2001, Larval accounted for approximately 62% of Medi-Hut's total revenue, or approximately \$8 million of Medi-Hut's total revenue of approximately \$12.96 million. For the first quarter of fiscal year 2002 which ended on January 31, 2002, Larval accounted for approximately 42% of Medi-Hut's total revenue, or approximately \$4.3 million of Medi-Hut's total revenue of \$10.1 million.

21. Although they knew that Medi-Hut was required to disclose related-party transactions to the SEC and the public, defendant **SANPIETRO** and his co-conspirators deliberately caused Medi-Hut to fail to disclose that its dealings with Larval constituted such transactions. In its Form 10-K for the fiscal year ending October 31, 2001 and its Forms 10-Q for fiscal year 2002, including Amended Forms 10-Q, each of which was signed by defendant **SANPIETRO** and L.S. and filed with the SEC, Medi-Hut failed to identify or disclose any related-party transactions

regarding Larval, and failed to disclose that L.M., Larval's sole owner, was also an officer and employee of Medi-Hut.

22. In or around early December 2001, in order to conceal the fact that Medi-Hut's dealings with Larval constituted related-party transactions, defendant **SANPIETRO**, L.S. and L.M. created false and fraudulent documents which they transmitted through the use of interstate wires, in an effort to create the false appearance that Larval was owned and controlled by R.M., a sister-in-law of L.M.

23. On or about February 4, 2002, the New York Post published an article which revealed that Medi-Hut had failed to disclose related-party transactions with L.M. and Larval to the SEC and the public. Among other things, the article alleged that L.M. was the owner and President of Larval while simultaneously serving as a Vice-President of Medi-Hut. The article further reported that L.S. had denied the allegations, representing that L.M. had divested his interest in Larval "a few years ago."

24. On or about February 12, 2002, L.M. created a false document, which he backdated to February 1, 2001, which purported to transfer ownership of Larval from L.M. to his sister-in-law R.M. "for good and valuable consideration." In fact, no consideration was ever tendered by R.M. to L.M. in connection with a transfer of the ownership of Larval. Defendant **SANPIETRO**, L.S. and others knew that any such transfer was

nominal, and that L.M. in fact exercised day-to-day control of Larval from its formation on or about March 9, 2000 through in or around March 2003.

II. The Fraudulent Inflation of
Medi-Hut's Revenue and Earnings Figures

25. From in or around June 2001 through in or around March 2003, defendant **SANPIETRO**, L.S., L.M. and others acted to ensure that the net revenue, pre-tax earnings, and earnings-per-share reported by Medi-Hut closely matched the Company's projected financial targets, in order both to avoid a shortfall which could trigger a decline in the price of Medi-Hut stock, and to encourage continued increases in that stock price.

Close of Fiscal Year 2001: October 31, 2001

26. In or around August 2001, defendant **SANPIETRO**, L.S. and others caused Medi-Hut to create and distribute a Company Fact Sheet to stockbrokers and investors at Medi-Hut promotional events in several U.S. cities. The information contained in the Fact Sheet was also disseminated by telephone to investors and professional financial advisors and brokers by Medi-Hut's stock promoters and others. Among other things, the Fact Sheet projected that Medi-Hut would receive net revenues of \$12 to \$15 million for the fiscal year ending October 31, 2001, with a corresponding earnings-per-share increase of \$.08 and \$.10. In addition, the Fact Sheet projected net revenues of between \$55 to \$65 million for the fiscal year ending October 31,

2002, with a corresponding earnings-per-share increase of between \$.50 and \$.60. On various occasions during 2002, Medi-Hut also issued press releases containing additional financial forecasts.

27. By the close of the fiscal year ending October 31, 2001, defendant **SANPIETRO**, L.S. and others determined that the Company had not met the revenue or earnings-per-share forecasts set forth in its Fact Sheet. In order to create the appearance that Medi-Hut had met its projections, defendant **SANPIETRO**, L.S. and others falsified the Company's books and records in order to inflate its reported revenue and earnings figures, including the following:

a. In or around November 2001, after the close of Medi-Hut's fiscal year 2001, defendant **SANPIETRO**, L.S., L.M. and others conspired to create a false invoice, Medi-Hut Sales Invoice No. 5454, which was backdated to October 24, 2001, and which purported to show that Medi-Hut sold over 20,000 units of Acetaminophen 500 mg tablets to Larval at an exorbitant price of \$29.95 per unit, for a total of approximately \$624,000. The true market price for this product at the time was approximately \$6 per unit.

b. In or around November 2001, in order to conceal the fraudulent nature of Invoice No. 5454, defendant **SANPIETRO**, L.S., L.M. and others conspired to create and record on Medi-Hut's books a fraudulent purchase invoice backdated to October

22, 2001. This invoice purported to show that Medi-Hut had previously acquired the Acetaminophen from another vendor for \$5.99 per unit, for a total cost of approximately \$124,000. As a result, Medi-Hut falsely inflated its net revenue for FY 2001 by approximately \$624,000, and its pre-tax earnings by approximately \$500,000.

c. In or around November 2001, after the close of Medi-Hut's fiscal year 2001, defendant **SANPIETRO**, L.S. and others created and caused to be created another false invoice, Medi-Hut Sales Invoice No. 5351, which was backdated to September 8, 2001, and which purported to show that Medi-Hut sold cleaning and paper products to D.S., a company based in Salt Lake City, Utah, for \$393,750. No cost of goods sold was recorded on Medi-Hut's financial books and records in connection with this false invoice, and no product was shipped to D.S.

d. In or around November 2001, defendant **SANPIETRO** and L.S. caused Medi-Hut to improperly apply a wire transfer of a Stock Subscriptions Receivable ["SSR"] from an investor in the amount of \$393,750, transmitted on or about September 13, 2001, to fraudulent Invoice No. 5351, in order to improperly record the SSR as reportable income (revenue), instead of recording the transaction as a reduction of the receivable. As a result, Medi-Hut falsely inflated its net revenue and pre-tax earnings for FY 2001 by approximately \$394,000.

e. In addition, L.S., with defendant **SANPIETRO's** approval, also inflated Medi-Hut's fiscal year 2001 earnings by prematurely recognizing two sales, in the respective amounts of approximately \$115,000 and \$320,000, while leaving the corresponding cost of goods sold in the next quarter. As a result, Medi-Hut falsely inflated its net revenue and pre-tax earnings for FY 2001 by approximately \$435,000.

28. On or about January 10, 2002, Medi-Hut filed with the SEC its Form 10-K for the fiscal year ended October 31, 2001, which was signed by both defendant **SANPIETRO** and L.S., and which reported annual revenues of approximately \$13 million, and net earnings of \$520,000 or \$.04 per share.

29. On or about January 10, 2002, Medi-Hut issued a press release touting its fiscal year-end financial results, citing "the largest [sales] volume in the Company's history." Specifically, Medi-Hut claimed that total net sales increased 59.4% to \$12,956,339, and that net income increased to \$519,815 or \$.04 per common share.

30. The fictitious and improper accounting transactions set forth above inflated Medi-Hut's year-end net revenue for FY 2001 by approximately \$1.5 million, which enabled the Company to falsely state that it had met its projected sales target, and inflated its pre-tax earnings by approximately \$1.3 million. Without these fictitious and improper accounting

transactions, Medi-Hut would not have met its projected financial results for net revenue, and would have reduced the posted earnings-per-share by \$.06 per share, resulting in a \$.02 loss per-share.

31. On or about January 15, 2002, after defendant **SANPIETRO** and others had inflated Medi-Hut's reported revenues and earnings, defendant **SANPIETRO** sold 100,000 of his Medi-Hut shares, in a private placement, at \$5 per share, resulting in a profit of \$500,000. Ultimately, defendant **SANPIETRO**, L.S., L.M. and others intended to sell their additional holdings of Medi-Hut stock at windfall profits.

Fiscal Year 2002:
Quarter Ended January 31, 2002

32. On or about January 10, 2002, Medi-Hut issued a press release which projected "estimates of \$60 million in net sales and net earnings per common share ... of \$.05-\$.06" for fiscal year 2002 ending October 31, 2002.

33. On or about February 1, 2002, Medi-Hut issued a press release stating that "Company President, Joseph Sanpietro, is pleased to announce Medi-Hut anticipates meeting its first quarter 2002 (ending January 31, 2002) revenue and earnings targets, ... [and] expects its first-quarter sales will meet or exceed the previously announced range of \$10 million to \$12 million."

34. By January 31, 2002, defendant **SANPIETRO**, L.S. and

others determined that the Company would not meet its net revenue or earnings forecasts for the first quarter of fiscal year 2002. In order to conceal this fact and make it appear that Medi-Hut had met its projections, defendant **SANPIETRO**, L.S. and others inflated the Company's net revenue and earnings by engaging in numerous improper accounting transactions, including the following:

a. improperly booking a cancelled sale, recorded on Medi-Hut Sales Invoice No. 5623 in the approximate amount of \$660,000, thereby inflating net revenue and pre-tax earnings by approximately \$660,000.

b. double-billing a customer, as recorded on Medi-Hut Sales Invoice Nos. 5736, 5704 and 5563, for the respective amounts of approximately \$297,000, \$57,000, and \$50,000, thereby inflating net revenue and pre-tax earnings by approximately \$404,000.

c. backdating Medi-Hut Sales Invoice Nos. 5737 and 5735, in the respective approximate amounts of \$49,000 and \$106,000, thereby inflating net revenue and pre-tax earnings by approximately \$155,000.

d. improperly failing to record price adjustments in Medi-Hut Sales Invoice No. 5649, thereby inflating net revenue and pre-tax earnings by approximately \$348,000.

e. improperly pulling sales into the first

quarter, while improperly pushing costs into the second quarter, thereby inflating net revenue and pre-tax earnings by approximately \$1.4 million.

35. On or about March 15, 2002, Medi-Hut filed with the SEC its Form 10-Q for the first quarter of FY 2002 ending on January 31, 2002, which was signed by both defendant **SANPIETRO** and L.S., and which reported quarterly net revenue of more than \$10 million and net earnings of \$664,000 or \$.05 per share.

36. On or about March 15, 2002, Medi-Hut issued a press release touting its first quarter financial results by stating that its net sales of \$10,086,215 marked "an increase of 358.6% versus the same quarter a year ago ... [and] net income for the period grew 766.9% over the first quarter in fiscal year 2001." In addition, the press release quoted defendant **SANPIETRO** as saying that: "[t]he Company continues to be on target to meet the goals set forth in its previously announced fiscal year revenue and earnings guidance ... [and] significantly greater sales and earnings growth will occur during the second half of the current fiscal year." These public pronouncements, and the Form 10-Q, were false.

37. The improper accounting recordings set forth above inflated Medi-Hut's first quarter revenues by approximately \$3 million, and its pre-tax income by \$2.9 million, which enabled the Company to falsely state that it had met its projected

financial targets. Without these improper accounting recordings, Medi-Hut would not have met its projected financial target for net revenue, and would have posted a net loss of \$.08 per share.

Quarter Ended April 30, 2002

38. Immediately after the close of the second quarter of fiscal year 2002 on April 30, 2002, defendant **SANPIETRO**, L.S. and others determined that the Company's financial results were not in line to meet its financial forecasts for fiscal year 2002. In order to conceal this fact, defendant **SANPIETRO** directed L.S. to inflate the net revenue and earnings by engaging in improper accounting transactions, including the following:

a. In or around mid-May 2002, L.S. caused Medi-Hut to improperly recognize one large sale as occurring within the second quarter, even though much of the product was not shipped until well after the close of the quarter. L.S. improperly recorded Medi-Hut Sales Invoice No. 5847, in the approximate amount of \$4.3 million, while goods relating to approximately \$2 million of this amount did not ship until well into the following quarter. L.S. also improperly recorded the costs of these products in the second quarter.

39. On or about June 14, 2002, Medi-Hut filed with the SEC its Form 10-Q for the second quarter of fiscal year 2002 ending on April 30, 2002, which was signed by both defendant **SANPIETRO** and L.S., and which reported quarterly revenues of

approximately \$5.3 million and net earnings of \$587,000, or \$.04 per share.

40. On or about June 14, 2002, Medi-Hut issued a press release wherein defendant **SANPIETRO** was quoted as calling the Company's second quarter results "impressive," and noting that sales increased more than 130% and net income grew 370%, when compared to the second quarter of fiscal year 2001. These public pronouncements, and the Form 10-Q, were false.

41. The improper accounting recordings set forth above inflated Medi-Hut's second quarter revenues by at least \$2 million, and its pre-tax income by approximately \$1.3 million. Without these improper accounting recordings, Medi-Hut would have reduced its stated revenue by approximately 61 percent, and would have reduced the posted earnings-per-share by \$.05 per share, resulting in a \$.01 loss per share.

Quarter Ended July 31, 2002

42. On or about June 27, 2002, Medi-Hut issued a press release quoting defendant **SANPIETRO** as saying that: "Medi-Hut continues to be the same profitable growth company ... For the 3rd quarter (ending July 31, 2002) revenues are estimated to be \$5 million" On or about September 9, 2002, before Medi-Hut filed with the SEC its Form 10-Q for the third quarter, the Company issued another press release quoting L.S. as stating that "[t]hird quarter revenues are estimated to be about \$5.2-\$5.7

million, up from the earlier guidance of \$5 million [and] ... we anticipate reduced net earnings-per-share ... from the previous guidance of \$.03 - \$.04 cents per share."

43. Immediately after the close of the third quarter of fiscal year 2002 on July 31, 2002, defendant **SANPIETRO**, L.S. and others determined that the Company had not met its net revenue or earnings forecasts for that quarter. In order to conceal this fact and make it appear that Medi-Hut had met its projections, defendant **SANPIETRO** directed L.S. to inflate the Company's net revenue and earnings by engaging in numerous improper accounting transactions, including the following:

a. improperly booking Medi-Hut Sales Invoice No. 6042, in the approximate amount of \$468,000. In mid-September 2002, after the close of the third quarter, L.S. backdated Invoice No. 6042 and corresponding shipping documents to July 15, 2002, thereby inflating revenue and pre-tax earnings by approximately \$468,000 and \$374,000, respectively.

b. improperly pushing approximately 11 invoices for purchases of product, totaling approximately \$1.6 million, into the fourth quarter from the third quarter, thereby reducing expenses and inflating third quarter pre-tax earnings by approximately \$1.6 million.

44. On or about September 17, 2002, Medi-Hut filed with the SEC its Form 10-Q for the third quarter of fiscal year

2002 ending on July 31, 2002, which was signed by both defendant **SANPIETRO** and L.S., and which reported quarterly revenues of approximately \$6.5 million, and net earnings of \$366,000.

45. On or about September 17, 2002, Medi-Hut issued a press release wherein L.S. was quoted as stating that "[t]hird quarter ... results for the period ending July 31, 2002 were in-line with and above the guidance given on ... September 9, 2002," and noting that revenue and net income increased over 135% and 145%, respectively, from the third quarter of fiscal year 2001. These public pronouncements, and the 10-Q, were false.

46. The press release issued on or about September 17, 2002 also announced that Medi-Hut had filed an Amended SEC Form 10-K for fiscal year 2001 and Amended SEC Forms 10-Q for the first and second quarters of fiscal year 2002 "to reflect certain adjustments to [Medi-Hut's] previously reported financial statements" These amended documents, which were signed and certified by defendant **SANPIETRO** and L.S., were submitted to the SEC after the commencement of its investigation of Medi-Hut, in an effort to conceal the fraudulent transactions and other accounting improprieties. Defendant **SANPIETRO** and L.S. certified these amended reports knowing that the reports failed to address and disclose the vast majority of the improper accounting set forth above.

The Impact on Financial Reports of Medi-Hut and
Losses to Holders of Medi-Hut Securities

47. By the means set forth above, defendant **SANPIETRO**, L.S., L.M. and others fraudulently caused Medi-Hut to misrepresent its financial results as set forth below:

a. The conspirators caused Medi-Hut to overstate its total net sales for its fiscal year ending October 31, 2001 by at least \$1.5 million, or approximately 13 percent.

b. The conspirators caused Medi-Hut to overstate its total net sales for the first quarter of fiscal year 2002 ending January 31, 2002 by at least \$3 million, or approximately 42 percent.

c. The conspirators caused Medi-Hut to overstate its total net sales for the second quarter of fiscal year 2002 ending April 30, 2002 by at least \$2 million, or approximately 61 percent.

d. The conspirators caused Medi-Hut to overstate its total net sales for the third quarter of fiscal year 2002 ending July 31, 2002 by at least \$468,000, or approximately 8 percent.

48. By the above means, through the issuance of numerous press releases and other documents disseminated to the general public and to financial advisors and brokers, as well as through promotional events for investors and brokers and telephone conferences with investors and others, in which Medi-Hut touted substantially exaggerated and false financial sales

and income growth for fiscal years 2001 and 2002, in order to encourage and solicit investment interest in the Company, the conspirators caused Medi-Hut stock to trade at prices ranging between \$3.00 and \$5.00 per share throughout most of 2000, and to increase to \$13.99 per share, its high, by on or about December 27, 2001.

49. On or about January 11, 2002, the day after Medi-Hut publicly announced the fraudulent financial results of fiscal year 2001, which it hailed as its "largest [sales] volume in the company's history," its stock closed at \$12.70 per share.

50. On or about February 4, 2002, the day the New York Post published its article raising serious questions about Medi-Hut's finances, the Company's stock closed at \$3.29, a 51 percent decline from the previous trading day's price of \$6.70.

51. By the above means, from on or about January 11, 2002 through on or about February 4, 2002, defendant **SANPIETRO**, L.S., L.M. and others caused other holders of Medi-Hut stock to sustain approximately \$100 million in losses.

OVERT ACTS

52. In furtherance of the conspiracy and to accomplish its unlawful objects, defendant **SANPIETRO** and his co-conspirators committed and caused to be committed the following overt acts in the District of New Jersey and elsewhere:

a. In or around November 2001, at Lakewood, New Jersey, defendant **SANPIETRO** and L.S. falsely created and backdated and caused to be created and backdated Medi-Hut Sales Invoice No. 5454.

b. In or around November 2001, at Lakewood, New Jersey, defendant **SANPIETRO**, L.S., and others falsely created and backdated Medi-Hut Sales Invoice No. 5351.

c. In or around early December 2001, at Lakewood, New Jersey, defendant **SANPIETRO** and L.S. transmitted, via facsimile, a false and inflated accounts receivable statement to L.M. at Larval, which they had addressed to R.M. in order to conceal from Medi-Hut's auditors, and ultimately the SEC and the public, L.M.'s true ownership and control of Larval.

d. In or around early December 2001, while at Larval's office in Farmingdale, New York, L.M. forged R.M.'s signature and falsely handwrote R.M.'s titles as "President/Secretary" on the confirmation, which he then transmitted, via facsimile, to defendant **SANPIETRO** and L.S. at Medi-Hut, in Lakewood, New Jersey.

e. On or about January 10, 2002, at Lakewood, New Jersey, defendant **SANPIETRO**, L.S. and others caused Medi-Hut to issue a press release containing false information regarding its revenue and profit.

f. On or about February 4, 2002, L.M. created a false document regarding his interest in Larval, which he then sent, via facsimile, from Woodbury, New York, to Medi-Hut in Lakewood, New Jersey.

g. On or about March 15, 2002, at Lakewood, New Jersey, defendant **SANPIETRO**, L.S. and others caused Medi-Hut to issue a press release containing false information regarding its revenue and profit.

h. On or about September 17, 2002, at Lakewood, New Jersey, defendant **SANPIETRO**, L.S. and others caused Medi-Hut to issue a press release containing false information regarding its revenue and profit.

All in violation of Title 18, United States Code, Section 371.

COUNT TWO

(Making False Statements to the SEC)

1. The allegations set forth in Paragraphs 1 through 14 and 17 through 51 of Count One of this Information are hereby realleged and incorporated as though set forth in full herein.

2. In or around February 2002, the SEC commenced an investigation of Medi-Hut involving allegations of related-party transactions with Larval and other financial improprieties.

3. On or about July 11, 2002, defendant **SANPIETRO** testified, under oath, before the SEC, and answered questions relating to Medi-Hut, and his actions as its President and CEO.

4. As set forth in Paragraph 24 of Count One of this Information, on or about February 12, 2002, L.M. created a false document, which he backdated to February 1, 2001, and which purported to transfer ownership of Larval from L.M. to his sister-in-law R.M.

5. When questioned as to when R.M. became the owner of Larval, defendant **SANPIETRO**, under oath, testified that in February 2001, L.M. showed him a document which set forth that R.M. owned Larval.

6. Because L.M. did not create the fraudulent transfer document until on or about February 12, 2002, defendant **SANPIETRO** did not and could not have received that document from

L.M. in February 2001.

7. Defendant **SANPIETRO** testified falsely on this issue to the SEC in an effort to conceal his knowledge of the unlawful and improper related-party transactions between Medi-Hut and Larval, which are set forth in Paragraphs 17 through 24 of Count One of this Information.

8. On or about July 11, 2002, in the District of Columbia and elsewhere, defendant

JOSEPH A. SANPIETRO

did knowingly and willfully make a materially false, fictitious, and fraudulent statement and representation, in a matter within the jurisdiction of the executive branch of the Government of the United States, namely, the SEC.

In violation of Title 18, United States Code, Sections 1001(a)(2) and 2.

CHRISTOPHER J. CHRISTIE
United States Attorney

